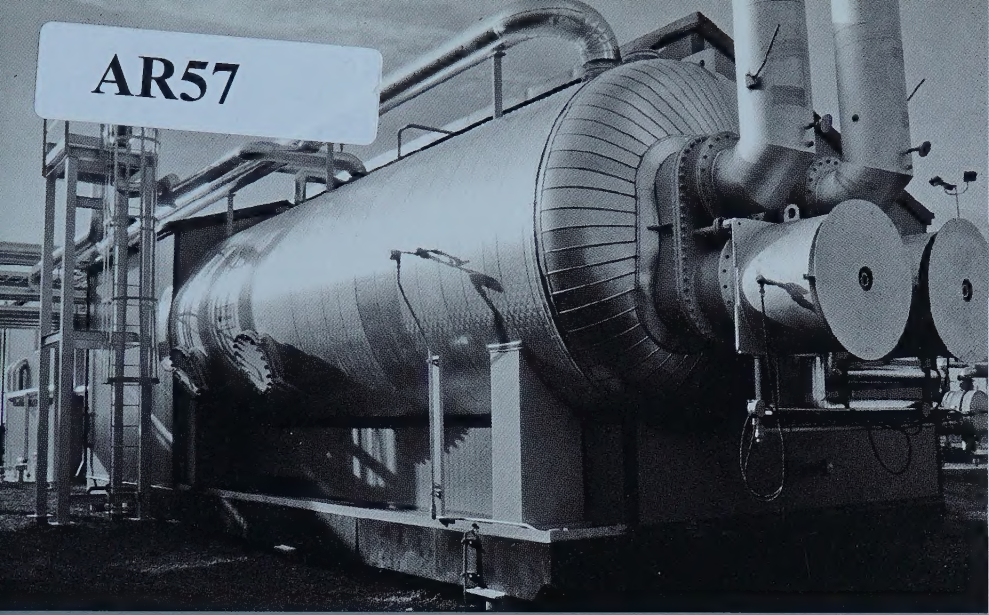


FOREMOST

AR2003

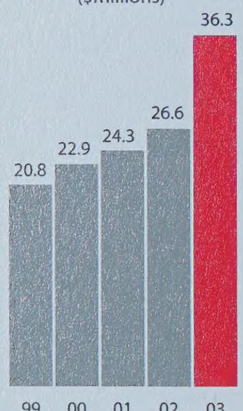
strategic growth

CORPORATE PROFILE

Front cover image: Heavy Oil Emulsion Treater.

Foremost Industries Income Fund, is a mutual fund trust that is publicly traded on the Toronto Stock Exchange ("TSX") – under the trading symbol FMO.UN. The Fund is an income trust that holds complementary manufacturing businesses that are recognized leaders in their respective fields. Through its separate business models, the Fund's operating entities design, manufacture and sell: drilling equipment, off-road vehicles, oil treating systems, pressure vessels, petroleum storage tanks, gas separation and steam generator equipment.

Unitholders' Equity
($millions)



FINANCIAL HIGHLIGHTS

For the years ended December 31,	**2003**	2002
Revenue	**$ 70,679,000**	$ 46,690,000
Net income	**6,619,000**	5,868,000
Per trust unit	**1.18**	1.17
Cash flow from operations	**7,933,000**	6,828,000
Per trust unit	**1.42**	1.36
Capital expenditures	**923,000**	832,000
Working capital	**14,270,000**	19,373,000
Total assets	**58,221,000**	32,848,000
Long-term debt	**3,098,000**	—
Unitholders' equity	**$ 36,293,000**	$ 26,548,000

Revenue From Continued Operations
($millions)

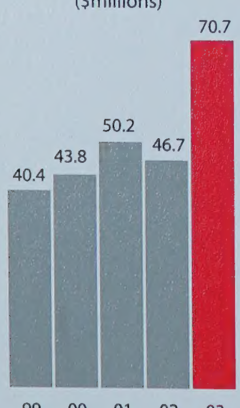


TABLE OF CONTENTS

DR-610C
The newly developed DR-610C is used to drill foundation piles in construction applications.

LETTER TO UNITHOLDERS

After a relatively slow start to 2003, the last half of the year was much stronger. The second half included the addition of Universal Industries effective July 1st. The distributable income (1) per unit, for the last half of the year, on an annualized basis was $1.98 per unit.

The prospects for 2004 for each of the two underlying businesses of the Fund, Foremost Industries and Universal Industries, remain strong in aggregate, at levels similar to the last half of 2003.

Although the annual distribution has recently been increased to $1.20 per unit, the Fund continues to distribute considerably less than its distributable income. This is a result of the Trustees concern that, because of the strong oil and natural gas prices, this level of distributable income represents above average performance for the Fund's existing operations.

The Fund is satisfied with the different business units it currently owns. However, it would like to add a few other risk diversified businesses that rely on the management skill sets of its existing businesses – manufacturing industrial products that benefit from excellence in design, service and cost control.

The surplus cash that was on the balance sheet at year end 2002 has been largely employed in the Universal transaction. However, the balance sheet remains strong with excess working capital and almost no long-term debt.

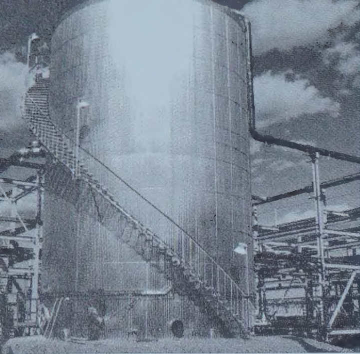
The Trustees look forward to 2004.

On behalf of the Trustees

James T. Grenon, Trustee

March 2004

(1) Distributable income is defined as net income plus depreciation and amortization, and with sustaining capital expenditures then deducted.



OPERATIONS REPORT

Refined product storage tank, constructed at customer's facility.

2003 was a year where the Fund delivered on its strategic plan, achieving growth through acquisition and stability through product diversification. The acquisition of Universal Industries ("Universal) and Wilco Industries ("Wilco"), during the second half of the year will add annualized revenue of $50 - $70 million in the short term and further growth opportunities in the future.

Both Universal and Wilco are oilfield production equipment fabricators which have synergies with Foremost's traditional manufacturing business. The common skill sets of welding, assembly and machining provide optimization opportunities for Foremost and Universal. Both companies have complementary strengths in the areas of purchasing, quality control, administration, information technology and safety. Foremost's expertise in engineering and systems will be utilized to improve efficiencies at Universal.

The "new" Fund performed well over the last six months of the year, generating annualized revenues of $106 million and annualized net income of $11.2 million. These numbers are indicative of the Fund's potential in a strong commodity driven market.

Rationalization was focused on the Universal side, integrating Wilco and Stettler Oil and Gas ("Stettler"), which was acquired by Universal in January 2003. The consolidation of senior management at the Fund level was done August 1, resulting in a familiarity and evaluation phase, which will lead to organizational changes next year.

FOREMOST OPERATIONS

Foremost Industries Limited Partnership ("Foremost")

Foremost's products can be grouped into four business segments: Oilfield; Drills; Vehicles; and Ancillary equipment consisting of Parts Sales and Service, Tooling and Pipe, and Rental. Each segment is managed independently to permit proactive changes to their unique markets. Resources, in the form of staff and funding are allocated to the product line where they can be best utilized.

Oilfield

Due to the current success of the Coil Tubing Rig (CTR) and future plans to expand the related product line, we are treating "Oilfield" as a distinct business segment this year. Foremost completed six CTR units in 2003, generating $9.1 million in revenue. These numbers are consistent with the Fund's 2002 performance. Working with one specific customer, our engineering and fabrication groups successfully incorporated opera-

	2003	2002	2001	2000	1999
Revenue	**$ 70,679,000**	$ 46,690,000	$ 50,163,000	$ 43,834,000	$ 40,388,000
Net income	**6,619,000**	5,868,000	8,553,000	2,138,000	(11,207,000)

tional improvements and delivered all six rigs three weeks ahead of schedule (on average), allowing them to generate greater revenues through improved efficiency and increased utilization.

Foremost recruited an experienced Oilfield Engineer early in 2003 to lead our growth initiative in this business segment. During the year, we have successfully introduced our product to new customers in the North American and International markets. This, coupled with a new line of support equipment including top drives, injectors, etc., led to the award of several contracts that will generate increased revenues in 2004.

Drills

Dual Rotary ("DR")

Foremost generated $13.4 million in revenue through the sale of nineteen units in 2003 versus $13.6 million on seventeen units in 2002.

In 2003, Foremost designed and constructed two new units to expand the functionality of the DR product line applications and increase sales. The DRW (waterwell) is a hybrid unit, capable of drilling in dual rotary or conventional top drive modes. This capability will enable our customers to utilize the rig on a wider cross-section of their applications. Initial testing is underway and customer interest has been high at tradeshows. We expect to sell five to ten of these units in 2004.

The DR-610C (construction) rig has been specifically designed for heavy piling applications on construction sites. The prototype model was sized and configured for drilling piles in Hong Kong. This is traditionally a very high activity area where conventional drilling equipment is inefficient and costly. Foremost's marketing team has made several trips to Hong Kong to introduce the concept and the major piling companies there have expressed a high degree of interest in the drill. Plans are to ship the unit to Hong Kong in 2004.

Geotechnical

As forecasted, sales of the Foremost Mobile line of geotechnical and environmental drills continued to decline in 2003. The over-saturated market condition will continue in 2004, but will not have a material impact on revenue due to the current low volume of sales.

Mineral Exploration

Sales of exploration units fell to $1 million from the $2 million level of 2002 due to the depressed mineral exploration industry.

Ancillary Equipment

This segment is comprised of the following: Parts Sales and Service; Tooling and Pipe; and, Rental. In aggregate, this segment contributed $16.9 million of revenue to Foremost in 2003 ($17.4 million in 2002).

Parts Sales and Service revenue was $8.4 million, with the majority of the revenue coming from the sale of replacement parts for Foremost proprietary equipment.

Foremost has traditionally treated this segment as a spin-off of capital sales and managed it in a reactive manner. Through the addition of resources in 2003 and a focus on proactive customer service, we are forecasting to grow this segment by 10 to 15 percent in 2004.

Vehicles

The product makeup and total revenue of this business segment will generally vary dramatically from year to year. It consists of long established products with proven performance that can be manufactured at a known cost. These products generally require minimal engineering involvement.

Revenue for 2003 was $0.8 million reflecting the sale of one Chieftain D unit.

UNIVERSAL OPERATIONS

The Fund acquired the assets and operations of Universal Industries Limited Partnership which included the business of Universal Industries and Stettler on July 1, 2003, and Wilco on November 26, 2003. Each of these business entities are involved in manufacturing oilfield equipment and providing customer support services for same.

Universal

Universal, a fully integrated fabricator of oilfield production equipment, is located in Lloydminster, Alberta. It includes 120,000 ft.^{2} of manufacturing shop and a full array of support equipment (trucks, trailers, cranes) and staff (engineers, draftsmen, trades) to service its customers. Its products can be broken down into four major areas.

Shop Tanks

This product is built in Universal's shops and consists of storage tanks for oilfield fluid. Sizes range from 28 bbl to 4,500 bbl capacities and are limited by the ability to transport the finished product. Revenues generated from this product for the last six months of 2003 were $11.1 million. This is up considerably from the prior six month level of $6.4 million, due to a combination of industry activity driven by high commodity prices and the introduction of new products.

Field tankage

Universal also fabricates large storage tanks (up to 120,000 bbl) at customer sites throughout western Canada. These jobs typically involve a ten to fifteen man crew for two to three months at a time. Revenues for the six months ended December 31, 2003 were $2.5 million and were consistent with prior period levels. This product line is utilized at new facilities and in particular is heavily dependent upon Steam Assisted Gravity Drainage ("SAGD") projects. There are currently ten of these major projects planned for northeastern Alberta that will require $30 - $40 million of tankage over the next ten years. Universal is well positioned to capture a significant portion of these jobs.

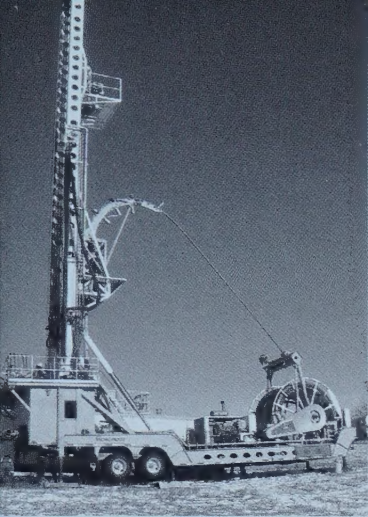
Vessels

Universal designs and manufactures a full range of oil treating vessels that are used to clean and de-water raw oilfield production. Similar to field tankage, this product is dependent upon new development, particularly SAGD projects. For the six months ended December 2003, revenues for this product line were $1.9 million as compared to the prior six months at a value of $5.7 million. This is a typical swing and is indicative of new construction activity.

Universal has sold vessels internationally to Cuba and Venezuela. As a 2004 initiative, we will utilize Foremost's Russian market exposure to introduce vessels to their growing oil production industry.

In 2001, Universal developed a co-production agreement with ITS Engineered Systems ("ITS") of Houston, Texas U.S.A. to provide large capacity steam generators to the Canadian SAGD projects. ITS provides the design and Universal does the fabrication work. Each SAGD project requires five to ten of these large generators which retail for $3 - $4 million per unit.

Prior to our entry into this market, there was only one manufacturer of this equip-



Hybrid Coil Tubing Drilling Rig combining top drive drilling capabilities with Coil Tubing technology.

ment. Based on the development of ten projects over the next ten years, there is a market opportunity of $200 to $300 million in generator sales. In late 2003, ITS along with Universal were awarded the design contract for the generators for the Nexen Long Lake SAGD project. The fabrication award for four generators ($16 million) was received in January 2004 and Universal will commence building the units in June 2004, for delivery in June 2005. Universal is currently bidding two similar jobs.

Service

This business segment consists of machine shop, parts and mobile equipment (hauling, craneage) services. Revenue for the last six months of 2003 was $0.9 million which is consistent with prior period levels.

Stettler

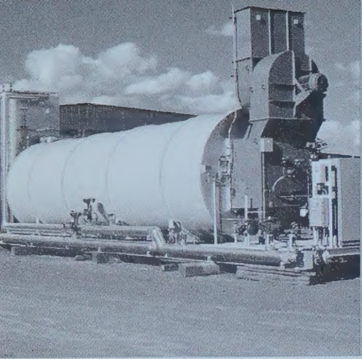
Universal acquired Stettler in January 2003 to further diversify their product lines into natural gas production equipment. This operation is located in Stettler, Alberta and utilizes 25,000 ft.^{2} of manufacturing floor space. Revenues for the six months ending December 2003 were $11.8 million compared to the prior six months of $6.3 million. This significant improvement was the result of high industry activity, removal of an operating line of credit cap and exposure to Universal's customer base.

We feel this level of revenue can be maintained and even further expanded through more exposure to Universal's customer base.

Wilco

Wilco, located 80 km southeast of Lloydminster, is a shop tank fabricator that historically averages $7 million per year in sales. The purchase allowed the Universal group of companies to meet the growing tank demands of their customers.

Purchasing, engineering, administration, safety and sales synergy opportunities should continue to improve the net income of both Stettler and Wilco in 2004.



MANAGEMENT'S DISCUSSION AND ANALYSIS

50 MM BTU/hr Portable Steam Generator.

OVERVIEW

The Fund is an unincorporated open-end mutual fund trust conducting its business through Foremost Industries Limited Partnership ("Foremost"), and a newly formed entity Foremost Universal Limited Partnership ("Universal"). The Fund acquired two new entities during 2003. The first was the asset acquisition of Universal Industries Limited Partnership of Lloydminster, Alberta, with an effective date of July 1, 2003. The second was the share acquisition of Wilco, of Neilburg, Saskatchewan. The effective date of this transaction was November 26, 2003. The consolidated financial statements for 2003 include the results of operations of the acquired businesses from their effective dates and 2002 comparative data has not been provided. The Fund derives its operational income from both Foremost and Universal.

OUTLOOK FOR 2004

The Fund will be embarking on the integration of various areas of its consolidated operations over the next year. Part of this process will be in identifying key synergistic areas within the existing and recently acquired business operations. The intent will be to use an "economies of scale" approach in order to gain efficiencies in cost management and operational business growth. Each operating business will retain its identity but will enjoy the benefit of the emerging consolidated infrastructure support. The Fund will continue to seek out other potential accretive business acquisition opportunities as part of its continuing growth strategy.

RESULTS OF OPERATIONS

Total consolidated year to date revenue for 2003 is $70.7 million compared to $46.7 million from a year ago. The net income achieved was $6.6 million ($5.9 million in 2002) which represents $1.18 ($1.17 in 2002) earned per trust unit. In 2002, the Fund dispersed annual cash distributions of $0.70 per trust unit ($3.5 million in total). Quarterly cash distributions were increased from $0.175 to $0.225 in June 2003. This has resulted in a year to date 2003 cash distribution of $0.80 per trust unit ($4.5 million in total). Revenues and net income, specifically for Foremost have declined from 2002. However, this has been offset by the newly acquired business operations that have complementarily contributed to the overall operational bottom line.

Although a good portion of the excess cash level from the end of 2002 was used for the acquisitions during the year, the year end working capital ratio still remains at a strong level of 1.73:1 (4.08:1 for 2002). Total year end book value per trust unit has increased by $.61 from $5.28 in 2002, to $5.89 in 2003.

REVENUE AND CONTRIBUTION MARGIN

Foremost

Overall revenues for 2003 were $41.5 million, which was less than the $46.7 million in 2002. Revenues have declined from 2002 primarily due to decreased demand of products and services within the mineral exploration sector. The effect of this could be seen specifically within drill and tooling and pipe revenues. U.S. based

drilling revenues have further declined from last year. Although these capital revenues have greatly reduced over the past few years, parts sales and service revenue in this market remain steady.

Oilfield - Revenue $9.1 million

($9.9 million in 2002)

The total number of Coil Tubing Rig (CTR) units produced in 2003 were the same as in 2002 at six units. However, the total revenue realized in 2003 was approximately $1 million less due to the different product mix within this category.

Drills - Revenue $14.7 million

($17.4 million in 2002)

Total revenue for Dual Rotary Rigs (DR) in 2003 remained consistent with 2002 levels. In 2002, a sale for two units was completed for the mineral exploration sector, compared to one in 2003. Revenue from the Mobile drill line has declined significantly in 2003 over 2002 by $1.6 million due to the weakened U.S. economy resulting in less demand for these drills.

Parts and Service - Revenue $8.4 million

($8.7 million in 2002)

In 2003, Parts and Service revenues were greater in the international marketplace, specifically in Russia. There appears to be a growing demand for vehicle parts within this region. Revenue to the U.S. market declined due to the strengthening of the Canadian dollar compared to the U.S. dollar, which had a diminishing effect on these translated revenues. Sales to the mineral exploration sector were depressed in 2003 over 2002.

Tooling and Pipe - Revenue $7.5 million

($8 million in 2002)

OEM demand for tooling declined in 2003 from 2002. One product within this category had a record year in 2002. Recovery in mineral exploration is slow, and Reverse Circulation pipe revenues decreased from 2002 levels. It is anticipated that there will be a moderate recovery within this sector during 2004.

Rental – Revenue $1 million

($0.8 million in 2002)

Foremost rental income remains consistent with its long-term operating agreement with a large oil sand consortium in Northern Alberta. This rental equipment fleet consists of several all-terrain vehicles.

Vehicles – Revenue $0.8 million

($1.9 million in 2002)

Revenues for 2002 included two used vehicles from finished goods. In 2003, there were no used vehicle revenues.

Contribution margin percentages at 26.7 percent for 2003 declined from 27.5 percent for 2002. Overall, margins reported on the income statement will vary from year to year based upon the specific blend of products sold in a particular year.

The decrease can be attributed to the strengthening of the Canadian dollar compared to the U.S. dollar during 2003. A significant portion of revenues are derived from U.S. dollars. These quotes are normally based on an average exchange rate determined over a period of time. Normally, lead times from quotation to award of contract and finally to completion can cover a period of several months. Exchange gains or losses will be experienced in the contribution margin during times of rapidly changing exchange rates. This was experienced during 2003 and has resulted in a decline in overall contribution margins over 2002.

Universal

Universal's consolidated revenue, which includes the Universal, Stettler and Wilco operations for the last two quarters of 2003, was $29.2 million. Oilfield

equipment revenues comprised of; tanks, vessels and gas separation equipment. In aggregate, these revenues amounted to $27.7 million. Parts and Service revenue of $1.1 million and Rental revenues of $0.4 million comprised the balance.

Universal provided $4.1 million, and a 14 percent margin to the Fund's overall contribution margin.

OVERHEAD

Overall overheads for 2003 are at $6.6 million compared to $6.3 million in 2002. Universal's overheads for the last two quarters of 2003 were $0.9 million. Universal's year to date overheads included a $0.6 million reclassification year to date adjustment to cost of goods sold so that it conforms to overall Fund contribution margin reporting. The gross amount of overheads for Universal before this reclassification entry was $1.5 million. Foremost's overheads at $5.7 million were reduced from the prior year due to a reduction in allowance for doubtful accounts, decreased management bonus accruals and a general overall reduction of overheads related to the U.S. operations.

INTEREST EXPENSE AND DEBT

Interest expense, net of interest revenue, for 2003 was $0.2 million compared to net interest revenue of $0.3 million in 2002. The Fund paid approximately $0.2 million in interest on the business acquisitions during the year. Universal had a net interest expense of $0.3 million paid on its long-term debt for 2003. All long-term debt has arisen from the business acquisitions of Universal and Wilco.

AMORTIZATION

Amortization, at $1.3 million for 2003 is higher than the $0.9 million in 2002. Universal recognized $0.6 million of amortization for 2003. Foremost amortization is slightly lower than the 2002 level because certain capital assets are now fully amortized.

FOREIGN EXCHANGE LOSS

The foreign exchange loss of $0.5 million for the year is attributed to the general strengthening of the Canadian dollar compared to the U.S. dollar. Foremost holds, at any time, a net U.S. working capital position wherein monetary assets denominated in U.S. dollars normally exceed liabilities in U.S. dollars. Foreign exchange gains or losses will occur in a year experiencing significant Canadian to U.S. dollar exchange volatility as was seen during 2003. It should be noted that in prior years Foremost has had significant foreign exchange gains. In 2002, there was a small foreign exchange loss.

INCOME TAXES

Pursuant to the Declaration of Trust, all Canadian taxable income is distributed to Unitholders and consequently there is no Canadian tax liability for the Fund. Foremost, through its U.S. subsidiary has significant U.S. non-capital loss carryforwards. No tax benefits have been recorded for these losses, as their utilization is uncertain. During 2002, the Canada Customs and Revenue Agency initiated a tax audit of the accounts of Foremost, and certain related entities. The tax audit is not yet complete. Adjustments, if required as a result of the audit, will be accounted for prospectively.

CASH LIQUIDITY AND KEY FINANCIAL RATIOS

The Fund's overall financial strength remains strong at the end of 2003. Excess cash that existed at the end of 2002 was used for the two business acquisitions. The Fund's ratios are more in line with the normal levels of 2001. Financial ratios are in good order as shown in the accompanying table.

As at December 31,	**2003**	2002	2001
Working Capital Ratio			
Current assets	**$ 33,898,000**	$ 25,673,000	$ 29,127,000
Current liabilities	**19,628,000**	6,300,000	12,210,000
Working capital	**$ 14,270,000**	$ 19,373,000	16,917,000
Ratio	**1.73:1**	4.08:1	2.39:1
Debt to Equity Ratio			
Total debt	**$ 21,928,000**	$ 6,300,000	$ 12,210,000
Unitholders' equity	**36,293,000**	26,548,000	24,309,000
Ratio	**0.60:1**	0.24:1	0.50:1
Long-term debt	**$ 3,098,000**	$ –	$ –
Ratio (long-term debt/unitholder's equity)	**0.09:1**	–	–
Book value per Unit			
Unitholders' equity	**$ 36,293,000**	$ 26,548,000	$ 24,309,000
Trust units outstanding	**6,160,230**	5,027,963	5,000,213
Book value per trust unit	**$ 5.89**	$ 5.28	$ 4.86
Selected Annual Information			
Revenues	**$ 70,679,000**	$ 46,690,000	$ 50,163,000
Net income	**6,619,000**	5,868,000	8,553,000
Net income per trust unit, basic	**$ 1.18**	$ 1.17	$ 1.58
Net income per trust unit, diluted	**1.16**	1.14	1.54
Cash flow per trust unit	**$ 1.42**	$ 1.36	$ 1.78
Total assets	**$ 58,221,000**	$ 32,848,000	$ 36,519,000
Long-term debt	**3,098,000**	–	–
Cash distributions	**4,533,000**	3,511,000	5,000,000
Cash distributions per trust unit	**$ 0.80**	$ 0.70	$ 1.00

INVENTORY

Consolidated inventory at the end of 2003 is $17 million of which Universal has $7.8 million. Foremost's 2003 year end inventory of $9.2 million compares to $8.7 million at the end of 2002. These are normal inventory levels, and are required in order to maintain an economic balance amongst several factors. These factors include: the time required for the manufacture of capital equipment; the lead time required to obtain purchased components; and, customer demand for products.

GOODWILL

Goodwill was derived as a result of the purchase of the business operations of Universal and Wilco. In addition, and as part of the Universal acquisition, the Fund has a contingent purchase price adjustment liability for a five year period, which is based on the earnings of a particular business unit. In 2003, $0.2 million has been recognized. Calculations will be made annually over the next four years and these amounts will be charged to goodwill in each respective year.

CREDIT FACILITIES

The Fund has an available credit facility with a chartered bank. This facility provides for an operating line of up to a maximum of $11 million. This operating line of credit is limited by financial covenants, including margin ratios for acceptable accounts receivable and inventory, debt service ratios and working capital requirements. At the end of 2003, the Fund had $2.8 million drawn against this operating line. The Fund has centralized its banking facilities, and the consolidated cash balance reflects the group's overall net cash position.

CRITICAL ACCOUNTING POLICIES

The Fund's significant accounting policies and estimates are shown in note 2 of the consolidated financial statements.

Revenue recognition for Foremost is based upon a completed contract method for capital equipment, as title normally does not transfer to a customer until the unit is ready for use. This occurs when the manufacturing process is complete. Deposits are received from customers at the time of order but these are recorded as a liability and not as revenue from progress billings. Revenue recognition for Universal is based upon a percentage of completion method. Universal progress bills its customers for completed work at regular intervals and this revenue recognition approach is a proper reflection of Universal's manufacturing activities.

The Fund regularly reviews its property, plant and equipment. If impairment in value exists, it is calculated by taking the difference of the lower fair market value and the higher book carrying amount, which is then charged to current earnings. The Fund cannot predict when such events occur, nor can it estimate the effect on the carrying value of these assets. Rather, the Fund conducts reviews of these assets when economic or environmental changes occur that may affect the valuation of the assets.

Foreign currency translation is recognized as it occurs. In the normal course of business, the Fund does not speculate on future foreign currency exchange rates. The majority of foreign exchange is with the U.S. dollar and operating results are prone to be influenced by rapid changes in these exchange rates within a given year. Historically, in some years this has provided a benefit to operating results and in other years it has not.

CRITICAL ACCOUNTING ESTIMATES

The critical accounting estimates shown below require management's judgement as to the effect of future events that are inherently uncertain. Management is required to make estimates and judgements that affect reported amounts within the consolidated financial statements and the related disclosure of contingencies. These estimates and judgements are based upon historical experience and various other assumptions that are believed to be reasonable in these circumstances. These estimates are evaluated on a regular basis and revised as new information becomes available. It should be noted that actual results may differ from these estimates under different assumptions or conditions. Management believes that the following accounting estimates are significant and merits additional disclosure.

Inventory obsolescence, for the most part in Foremost, is calculated on a product by product basis of which the latest activity of a given item is used in the determination of the aging of the individual product. This last date of activity is then compared to a table of discount factors, which is based upon management's belief of how much discount should be applied. This belief is based upon past experiences of inventory movement trends and for the most part is a good indicator of future probabilities.

Warranty estimates are based upon a standard allocation for each capital equipment unit produced. These estimates are based upon historical data for similar types of capital equipment. In the case of capital equipment products that have not been previously manufactured, management estimates and extrapolates warranty liabilities based upon the closest historical models and will use its judgement to consider additional factors.

ACCOUNTING CHANGE

Prior to 2003, the Fund recognized all plant overheads in selling, general and administration expenses. The Fund feels that these costs should be charged to cost of goods sold as they are more closely associated to production costs as opposed to general period costs. The effect of this change is a transfer of costs from selling, general and administration expenses of $4.3 million in 2003 ($4.4 million in 2002).

The Fund has elected to early adopt the new disclosure requirement for stock based compensation pursuant to the CICA Handbook proposed amendment on the stock based compensation section. This early adoption requires the realization of the value of options granted during the year using the Black-Scholes model to compute the present value of these benefits over a five year period as an expense in the year of grant. In the past, the Fund had elected not to record any compensation expense upon the grant of options in a given year. Additional information can be found under Note 9(e).

RELATED PARTY TRANSACTIONS

The Fund utilized the services of a company owned and managed by a trustee. Specific functions that were performed included legal and professional services, as well as due diligence and business valuation services, with respect to the two business acquisitions that were completed in 2003. A total of $0.5 million was paid in 2003, compared to $0.2 million in 2002. Amounts paid were not more than what could be expected from unrelated parties. Legal and professional services will continue to be required in the future and will be paid on a monthly basis to this related party. Due diligence and business valuation services will also be utilized in the future if the need arises. Any such costs will be capitalized as part of the overall consideration for the acquired business.

OBLIGATIONS AND COMMITMENTS

The Fund has future obligations on a term loan that was acquired through its purchase of Universal and Wilco during the year. Principal repayments of $0.8 million are required in 2004. In each of the years of 2005, 2006 and 2007 this amount will be $0.8 million. In 2008, this amount will be $0.1 million.

SUMMARY OF QUARTERLY INFORMATION (Unaudited)

2003	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Revenue	**$ 8,087,000**	**$ 9,414,000**	**$ 24,919,000**	**$ 28,259,000**	**$ 70,679,000**
Net income	**197,000**	**801,000**	**2,708,000**	**2,913,000**	**6,619,000**
Per trust unit, basic	**$0.04**	**$0.14**	**$0.48**	**$0.52**	**$1.18**
Per trust unit, diluted	**$0.04**	**$0.14**	**$0.47**	**$0.51**	**$1.16**

2002	Q1	Q2	Q3	Q4	Total
Revenue	$ 10,554,000	$ 12,713,000	$ 13,508,000	$ 9,915,000	$ 46,690,000
Net income	1,388,000	1,138,000	2,053,000	1,289,000	5,868,000
Per trust unit, basic	$0.28	$0.23	$0.40	$0.26	$1.17
Per trust unit, diluted	$0.27	$0.23	$0.39	$0.25	$1.14

The table below compares the fourth quarter of both 2003 and 2002:

DISCUSSION OF FOURTH QUARTER RESULTS (Unaudited)

Quarter ended December 31,		**2003**		2002
	Total	**Universal**	**Foremost**	Foremost
Revenue	**$ 28,259,000**	**$ 14,531,000**	**$ 13,728,000**	$ 9,915,000
Cost of sales	**22,559,000**	**12,916,000**	**9,643,000**	7,418,000
	5,700,000	**1,615,000**	**4,085,000**	2,497,000
Selling, general and administrative	**2,116,000**	**218,000**	**1,898,000**	1,097,000
Interest expense (income)	**191,000**	**188,000**	**3,000**	(82,000)
Amortization	**369,000**	**253,000**	**116,000**	164,000
Foreign exchange (gain) loss	**114,000**	**3,000**	**111,000**	(3,000)
	2,790,000	**662,000**	**2,128,000**	1,176,000
Earnings from operations	**2,910,000**	**953,000**	**1,957,000**	1,321,000
Gain (loss) on disposal of property, plant and equipment	**3,000**	**1,000**	**2,000**	(32,000)
Net income	**$ 2,913,000**	**$ 954,000**	**$ 1,959,000**	$ 1,289,000
Net income per trust unit, basic	**$ 0.52**			$ 0.26
Net income per trust unit, diluted	**$ 0.51**			$ 0.25
Total number of trust units	**6,160,230**			5,027,963
Average number of trust units for the year	**5,593,198**			5,014,115

The analysis following compares the fourth quarter of 2003 to the fourth quarter of 2002. In the case of Universal, since it was acquired July 1, 2003, we have compared the fourth quarter results to the previous quarter.

FOREMOST

Revenues for the fourth quarter of 2003 at $13.7 million were higher than the same period last year of $9.9 million. This increase was due to the sales of two additional capital equipment units; and, the completion of a large parts order that was destined for Russia.

The contribution margin for the quarter was at $4.1 million compared to $2.5 million last year. The additional revenues from the two (2) additional capital unit sales and the large parts sale to Russia were the primary reason for the increase in contribution margin.

Overhead expenses at $1.9 million for the quarter were higher than the $1.1 million from the same period last year. The results for last year included non-recurring recoveries of $0.8 million. These consisted of a year end allowance for doubtful accounts write-back and favorable inventory obsolescence adjustments.

Interest expense for the quarter was nominal compared to a net interest revenue of $0.1 million last year. Cash balances were lower in 2003 due to the business acquisitions that occurred during the year.

Amortization at $0.1 million for the quarter was lower than the $0.2 million from the same period one year ago.

There was a foreign exchange loss of $0.1 million for the quarter compared to a nominal amount last year. The primary cause was the general strengthening of the Canadian dollar compared to the U.S. dollar during this period.

UNIVERSAL

Fourth quarter revenues of $14.5 million were similar to the $14.7 million generated in the third quarter.

Universal's contribution margin for the quarter ended September 30, 2003 was at 17 percent compared to 11 percent for the quarter ended December 31, 2003. The difference relates to a $0.6 million overhead adjustment from selling, general and administrative that occurred during the fourth quarter. This was done to properly reflect the contribution margin to be consistent with the Fund's overall contribution margin reporting.

Universal's overheads were $0.2 million in the fourth quarter of 2003 compared to $0.7 million for the third quarter in 2003. The $0.6 million adjustment realized in the fourth quarter was for a year to date reclassification to cost of sales from overheads and reduced the actual total overheads from $0.8 million to $0.2 million for the quarter. This adjustment was made so that Universal's contribution margin was reflected in a similar manner to the entire overall Fund contribution margin.

RISKS AND UNCERTAINTIES

A substantial portion of the Fund's operational business is conducted in foreign markets with the currency typically in U.S. dollars. This includes not only product sales, but also the purchase of a substantial portion of the components required to manufacture those products sold. This heavy dependence on U.S. currency for both sales and purchasing lend exposure to some risks related to currency fluctuations. Contribution margins are influenced by fluctuations in exchange rates. A permanent strengthening of the Canadian dollar versus U.S. currency would result in a decline in

the margins enjoyed on U.S. dollar denominated sales.

A portion of revenue is earned from foreign customers susceptible to political and economic risks. These risks are mitigated for larger contracts with contractual credit terms that require a considerable cash deposit and/or letter of credit to guarantee payment of contract amounts. Additionally, in many cases, the Export Development Corporation ("EDC") is utilized to insure foreign contracts and receivables. However, if a situation requires reliance on EDC coverage, collection can be postponed significantly and may be less than the total contract price.

Products are also sold into industries that can experience extreme economic cycles. A portion of revenues are affected by these large historical economic fluctuations such as in both the energy and mining sectors.

New, specialized products are developed from time to time that have inherent risks that include:

1. Technical risk that either the product does not perform as desired or that there are unacceptable reliability issues that may render the new product un-merchantable.

2. Supplier risk that components, engines, and other modules procured from third party vendors, that are used in the assembly of products, do not perform in an acceptable manner thereby having an adverse impact on product liability.

3. Commercial risk that cost over-runs result in the product being a financial drain.

Foremost has undertaken a program, driven by a management committee, to review and evaluate all new product development, with the objective that Foremost only undertake projects where the risk/reward trade-off is acceptable. Since adopting this program in 2000, these risks have been managed very effectively and no financial losses on these projects have been experienced.

CAUTIONARY STATEMENT

Certain statements within this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, such statements use words such as "estimate", "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this report. These forward-looking statements involve a number of risks and uncertainties, including: the impact of general economic conditions, industry conditions, changes in laws and regulations, increased competition, fluctuations in commodity prices and foreign exchange and interest rates and stock market volatility. The Fund is not undertaking to update any forward-looking statements.

MANAGEMENT'S REPORT

To the Unitholders of Foremost Industries Income Fund

The consolidated financial statements of Foremost Industries Income Fund and other financial information included in this annual report have been prepared by Management. It is Management's responsibility to ensure that sound judgement, appropriate accounting principles and methods, and reasonable estimates have been used in the preparation of this information. They also ensure that all information presented is consistent.

Management is also responsible for developing internal controls over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy. Management believes the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports. Management also believes that Foremost's operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Trustees is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Committee, which consists of non-management Trustees, reviews the financial statement and annual report, and recommends them to the Board for approval. The Committee meets with Management and external auditors to discuss internal controls, auditing matters and financial reporting issues. External auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the Unitholders.

Pat W. Breen, President
Foremost Industries Income Fund

Calgary, Alberta
April 2004

AUDITORS' REPORT

To the Unitholders of Foremost Industries Income Fund

We have audited the consolidated balance sheet of Foremost Industries Income Fund as at December 31, 2003 and the consolidated statements of income and equity, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2002 and for the year then ended were audited by another firm of chartered accountants who expressed an unqualified opinion on these statements in their report dated February 28, 2003.

Grant Thornton LLP

Chartered Accountants

Calgary, Alberta
February 27, 2004

CONSOLIDATED BALANCE SHEETS

As at December 31,		**2003**	2002
Assets			
Current assets			
Cash		**$ 1,156,000**	$ 13,195,000
Accounts receivable		**15,758,000**	3,823,000
Inventories	*note 5*	**16,984,000**	8,655,000
		33,898,000	25,673,000
Property, plant and equipment	*note 6*	**18,898,000**	7,175,000
Goodwill	*note 7*	**5,425,000**	—
		$ 58,221,000	$ 32,848,000
Liabilities and Unitholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 14,155,000**	$ 5,163,000
Customer contract deposits		**4,675,000**	1,137,000
Current portion of long-term debt		**798,000**	—
		19,628,000	6,300,000
Long-term debt	*note 8*	**2,300,000**	—
		21,928,000	6,300,000
Unitholders' equity			
Trust unit equity	*note 9*	**36,293,000**	26,548,000
		$ 58,221,000	$ 32,848,000

(Contingencies – *note 12*)

Approved by the Board of Trustees

James T. Grenon, Trustee

Roy H. Allen, Trustee

CONSOLIDATED STATEMENTS OF INCOME AND EQUITY

Years ended December 31,		2003	2002
Revenue		**$ 70,679,000**	$ 46,690,000
Cost of sales		**55,536,000**	33,863,000
		15,143,000	12,827,000
Selling, general and administrative		**6,574,000**	6,263,000
Interest expense (income)		**169,000**	(268,000)
Amortization		**1,315,000**	928,000
Foreign exchange loss		**467,000**	4,000
		8,525,000	6,927,000
Earnings from operations		**6,618,000**	5,900,000
Gain (loss) on disposal of property, plant and equipment		**1,000**	(32,000)
Net income		**6,619,000**	5,868,000
Change in common trust units	*note 9*	**3,126,000**	(3,629,000)
Equity, beginning of year		**26,548,000**	24,309,000
Equity, end of year		**$ 36,293,000**	$ 26,548,000
Earnings per trust unit	*note 10*		
Basic		**$ 1.18**	$ 1.17
Diluted		**$ 1.16**	$ 1.14

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,		2003	2002
Cash flows from operating activities			
Net income		**$ 6,619,000**	$ 5,868,000
Add (deduct) items not involving cash:			
Amortization		**1,315,000**	928,000
(Gain) loss on disposal of property, plant and equipment		**(1,000)**	32,000
Cash flows from operations		**7,933,000**	6,828,000
Changes in non-cash working capital	*note 13*	**(1,568,000)**	(1,795,000)
Cash flows from operating activities		**6,365,000**	5,033,000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(923,000)**	(832,000)
Proceeds from sale of property, plant and equipment		**49,000**	—
Business acquisitions	*note 3*	**(12,312,000)**	—
Cash flows used in investing activities		**(13,186,000)**	(832,000)
Cash flows from financing activities			
Issuance of trust units upon exercise of trust unit options		**107,000**	133,000
Repurchase of trust unit options		**—**	(251,000)
Distributions to unitholders		**(4,533,000)**	(3,511,000)
Long-term receivable		**—**	89,000
Long-term debt repayments		**(792,000)**	(1,933,000)
Cash flows used in financing activities		**(5,218,000)**	(5,473,000)
Net decrease in cash, during year		**(12,039,000)**	(1,272,000)
Cash, beginning of year		**13,195,000**	14,467,000
Cash, end of year		**$ 1,156,000**	$ 13,195,000
Cash consists of:			
Cash		**$ 3,956,000**	$ 13,195,000
Bank indebtedness	*note 4*	**(2,800,000)**	—
		$ 1,156,000	$ 13,195,000
Supplemental disclosure of cash flow information			
Interest paid		**$ 425,000**	$ 69,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 and 2002

1. DESCRIPTION OF THE FUND

Foremost Industries Income Fund (the "Fund") is an unincorporated open-end mutual fund trust established by a Declaration of Trust dated November 14, 2001, as amended and restated June 28, 2002, under the laws of the Province of Alberta.

The Fund's business operations are conducted through Foremost Industries Limited Partnership ("Foremost") and Foremost Universal Limited Partnership ("Universal"). Foremost designs and fabricates drilling equipment, heavy all-terrain vehicles and related parts and tooling. Universal designs and fabricates oil and gas treating equipment, including pressure vessels, petroleum storage tanks, gas separation equipment and large scale steam generators.

The Fund has an obligation under the Declaration of Trust, to distribute all of its taxable income and realized capital gains to the Common Trust Unitholders ("Unitholders") of record on December 15 of each fiscal year. Distribution of this taxable income can be in the form of cash or through the issuance of additional common trust units ("Trust Units"). Under the terms of the Declaration of Trust, if taxable income is distributed in the form of additional Trust Units, there will be an immediate reconsolidation of the number of Trust Units outstanding. After the consolidation, each Unitholder will hold the same number of Trust Units as held before the distribution of additional Trust Units.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of accounting policies summarized below.

a. Principles of consolidation

The consolidated financial statements include the accounts of the Fund, its partnerships and their wholly owned subsidiaries.

b. Inventories

Inventories are valued at the lower of cost and net realizable value, cost being defined to include laid-down cost for materials and actual cost for direct labour on a first-in, first-out basis.

c. Property, plant and equipment

Property, plant and equipment are stated at cost. Amortization of buildings, machinery and equipment is calculated at various rates ranging from 3 to 25 years on a straight line basis according to their useful life, assuming a residual value of 5 percent of the original cost.

d. Product warranty provision

Based on experience factors, the Fund provides for future warranty costs relating to its products at the time the products are sold. These amounts are included in accounts payable.

e. Foreign currency translation

Foreign currencies have been translated at approximate exchange rates in effect at transaction dates. The Fund's foreign subsidiaries are accounted for as integrated operations. Monetary items have been adjusted to reflect the year end rate of exchange while non-monetary items are translated at historical rates. Gains and losses arising on foreign currency transactions are charged to income.

Effective January 1, 2002, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") revised standard with respect to "Foreign Currency Translation". The revised standard no longer permits the deferral and amortization of unrealized gains and losses that arise on the translation of long-term foreign currency denominated monetary assets and liabilities. Under the new recommendations, such gains and losses must be reported in earnings as they arise. Adopting the revised standards had no impact on the Fund's consolidated financial statements.

f. **Revenue recognition**

Foremost capital revenues are recognized on a completed contract basis. Universal capital revenues are recognized on a percentage of completion basis. All parts sales, and tooling and pipe revenues are recognized on a point of sales basis.

g. **Trust Unit-based compensation plan**

The Fund administers a Trust Unit-based compensation plan (note 9d), and any consideration paid for Trust Units on exercise of Trust Unit-based options is credited to Fund equity.

The Fund has early adopted the Canadian accounting standard as outlined in the CICA Handbook, section 3870, "Stock-based Compensation and Other Stock-based Payments". As allowed by the section, this policy has been adopted prospectively, meaning all prior years have not been restated.

The Fund records compensation expense in the Consolidated Financial Statements for Trust Unit Options granted to employees, directors and trustees using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period (see Note 9e).

h. **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The amounts recorded for amortization are based on an estimate of the useful lives of the property, plant and equipment, and the amounts recorded for the warranty provision are determined based on historical information of warranty claims for similar products. The inventory obsolescence provision is based on estimates of the future saleability of specific inventory items, and the bad debt allowances of accounts receivable are determined based on a combination of specifically identified amounts, as well as historical collection trends. These estimates are based on management's best knowledge of current events and actions that the Fund may undertake in the future. Actual results could differ from those estimates.

i. **Income taxes**

The Fund is a Unit Trust for income tax purposes. As such, the Fund is taxed on any Canadian taxable income not allocated to Unitholders. Under the terms of the Declaration of Trust, all Canadian taxable income of the Fund will be allocated to the Unitholders resulting in no Canadian tax expense for the Fund.

Income taxes are recorded using the liability method of accounting for the foreign subsidiaries of the Fund. Under the liability method, the change in net future income tax assets or liabilities is charged to income.

Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These future income taxes are classified as current and long-term depending upon the classification of the balance sheet items to which they relate.

j. **Net income per Trust Unit**

The Fund uses the treasury stock method for the calculation of net income per Trust Unit. Under this method basic earnings per Trust Unit, is calculated using the weighted average number of Trust Units outstanding during the period. Diluted earnings per Trust Unit, is calculated by taking the deemed proceeds from the exercise of Trust Unit options to acquire Trust Units at an average Trust Unit price.

k. Goodwill

Goodwill represents the excess of the purchase price over the fair market value of the net identifiable assets acquired. Under the new standards for accounting for goodwill, goodwill is no longer amortized, but is tested for impairment on an ongoing basis. Any impairment in the value of goodwill is written off against income in the period the impairment is recognized.

3. BUSINESS ACQUISITIONS

On July 1, 2003, the Fund acquired the assets and operations of Universal Industries Limited Partnership ("Universal") for total consideration of cash, issuance of 1,100,000 Trust Units of the Fund (at $6.82 per unit), a note payable, the assumption of liabilities and a contingent consideration based upon earnings results for a five-year period. Universal manufactures, sells and rents: oil treating systems, pressure vessels, petroleum storage tanks, gas separation and steam generation equipment from two facilities located in Lloydminster and Stettler, Alberta.

On November 26, 2003, the Fund acquired all of the issued and outstanding shares of Wilco Industries Ltd. ("Wilco") for cash consideration. Wilco manufactures small to medium-sized single and double-wall petroleum storage tanks at its location in Neilburg, Saskatchewan.

Both acquisitions have been accounted for under the purchase method. The results of their operations have been included in the Fund's accounts from each acquisition's purchase date. The total consideration provided, including related acquisition costs, has been allocated to the fair market value of the assets acquired and the liabilities assumed on the following basis:

	Universal	Wilco	Total
Consideration:			
Cash	$ 7,927,000	$ 1,173,000	$ 9,100,000
Note payable (repaid during 2003)	3,000,000	—	3,000,000
Trust units	7,502,000	—	7,502,000
	18,429,000	1,173,000	19,602,000
Acquisition costs	50,000	162,000	212,000
Totals	$ 18,479,000	$ 1,335,000	$ 19,814,000
Net assets acquired:			
Current assets	$ 15,419,000	$ 2,519,000	$ 17,938,000
Property, plant and equipment	11,106,000	1,057,000	12,163,000
Goodwill	4,889,000	361,000	5,250,000
Current liabilities	(10,118,000)	(2,149,000)	(12,267,000)
Long-term debt	(2,817,000)	(453,000)	(3,270,000)
Totals	$ 18,479,000	$ 1,335,000	$ 19,814,000

4. BANK INDEBTEDNESS

The Fund has an $11,000,000 operating line of credit facility with a major chartered bank. The operating line is repayable on demand, bears interest at the prime rate, and is secured by a floating charge debenture covering all assets of the Fund. As at December 31, 2003, a total of $2,800,000 had been drawn against this line.

5. INVENTORIES

	2003	2002
Raw materials and parts	**$ 9,116,000**	$ 4,757,000
Work in process	**5,401,000**	2,684,000
Finished goods	**2,467,000**	1,214,000
	$ 16,984,000	$ 8,655,000

6. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Land	**$ 2,543,000**	**$ —**	**$ 2,543,000**	$ 903,000	$ —	$ 903,000
Buildings	**10,732,000**	**1,624,000**	**9,108,000**	4,571,000	1,340,000	3,231,000
Equipment	**12,627,000**	**6,432,000**	**6,195,000**	7,601,000	5,777,000	1,824,000
Rental assets	**2,015,000**	**963,000**	**1,052,000**	1,878,000	661,000	1,217,000
	$ 27,917,000	**$ 9,019,000**	**$ 18,898,000**	$ 14,953,000	$ 7,778,000	$ 7,175,000

7. GOODWILL

	2003	2002
Goodwill from business acquisition (note 3)	**$ 5,250,000**	$ —
Purchase price adjustment	**175,000**	—
Goodwill as at December 31, 2003	**$ 5,425,000**	$ —

As part of the acquisition of Universal, the Fund has a contingent purchase price adjustment liability for a five year period which is based on the earnings results of a particular business unit. The adjustment reflected above represents the first year's purchase price adjustment, and has been included in accounts payable and accrued liabilities.

8. LONG-TERM DEBT

	2003	2002
Term loan	**$ 3,098,000**	$ —
Less: current portion	**798,000**	—
	$ 2,300,000	$ —

The term loan is secured by a floating charge debenture covering all assets of the Fund, including accounts receivable, inventories and property, plant and equipment. It is repayable on a monthly basis, over the next five years and bears an interest rate of prime plus 1/2 percent.

Principal payments on long-term debt for the next five years are as follows:

2004	$ 798,000
2005	750,000
2006	750,000
2007	750,000
2008	50,000
	$ 3,098,000

9. TRUST UNIT EQUITY

a. Authorized

The Fund is authorized to issue an unlimited number of Trust Units and 30,000 preferred Trust Units.

b. Issued

	2003		2002	
	Number	**Stated value**	Number	Stated value
Trust unit equity, beginning of year	**5,027,963**	**$ 26,548,000**	5,000,213	$ 24,309,000
Trust units redeemed	**—**	**—**	(50)	—
Trust units issued on exercise of options	**32,267**	**107,000**	27,800	133,000
Trust unit options repurchased (note 9d)	**—**	**—**	—	(251,000)
Trust units issued on acquisition (note 3)	**1,100,000**	**7,502,000**	—	—
Trust unit cash distribution	**—**	**(4,533,000)**	—	(3,511,000)
Contributed surplus (note 9e)	**—**	**50,000**	—	—
Change in common trust units in the year	**1,132,267**	**3,126,000**	27,750	(3,629,000)
Net income for the year	**—**	**6,619,000**	—	5,868,000
Trust unit equity, end of year	**6,160,230**	**$ 36,293,000**	5,027,963	$ 26,548,000

c. Distribution of income to Unitholders

Pursuant to the Trust Indenture of the Fund, the Trustees must distribute the income of the Fund to its Unitholders for the fiscal year, determined in accordance with the Canadian Income Tax Act. If the Fund does not pay cash distributions for the total distributable amount of income, the remaining income of the Fund is distributed through additional Trust Units having a value equal to the cash shortfall.

In 2003, each Trust Unit received $0.80 as a cash distribution, and an increase in its adjusted cost base (ACB) of $0.50 as a Trust Unit distribution, for a total distribution of $1.30. In 2002, each Trust Unit received $0.70 as a cash distribution, and an increase in its ACB of $0.58 as a Trust Unit distribution, for a total distribution of $1.28.

d. Trust Unit-based compensation plan

The Fund has reserved 289,100 Trust Units under the terms of its employee Trust Unit Option Plan at December 31, 2003. The exercise price of each option equals the fair market value at the date of grant. Options vest at a rate of 20 percent, on each of the five anniversaries of the date of grant, and expire shortly after the fifth anniversary.

A summary of the status of the plan and changes during the years then ended is presented below:

Trust unit option plan	2003		2002	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Trust unit options, beginning of year	**200,200**	**$ 2.11**	348,200	$ 2.24
Granted	**140,000**	**6.70**	—	—
Exercised	**(32,267)**	**3.31**	(27,800)	4.75
Cancelled	**(18,833)**	**2.16**	(2,500)	6.00
Option buyout plan	**—**	**—**	(117,700)	1.79
Trust unit options, end of year	**289,100**	**4.25**	200,200	2.11
Trust unit options exercisable, end of year	**67,600**	**$ 1.82**	48,200	$ 1.88

The following table summarizes information about the Trust Unit Options outstanding:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of options	Weighted average remaining contractual Life	Weighted average exercise price	Number of options	Weighted average exercise prices
\$ 1.65 - \$ 2.25	124,000	1.4 years	\$ 1.65	60,000	\$ 1.65
\$ 2.35 - \$ 4.00	18,000	2.3 years	\$ 2.35	6,000	\$ 2.35
\$ 5.00 - \$ 6.00	7,100	0.2 years	\$ 6.00	1,600	\$ 6.00
\$ 6.00 - \$ 7.00	140,000	4.7 years	\$ 6.70	—	\$ —
\$ 1.65 - \$ 6.00	289,100	3.0 years	\$ 4.25	67,600	\$ 1.82

Early in 2002, the Fund entered into agreements with various Trust Unit optionholders to repurchase up to 10,000 outstanding options from each holder at \$4.00 less the exercise price. Trust Unit optionholders elected to accept this arrangement. This arrangement involved the settlement of 117,700 options with \$147,000 being paid in February 2002, and a second installment of \$104,000 to be paid within one year of the first installment. As at December 31, 2003 the second installment was paid.

The Fund accrues a deferred bonus for trustees, directors and officers of Foremost holding options (qualified option-holders) to acquire Trust Units in the Fund. Under the terms of the Fund program, a bonus entitlement arises when a qualified optionholder exercises an option to acquire Trust Units. The entitlement is calculated by multiplying the number of options exercised by the cumulative cash distribution per Trust Unit paid to Unitholders, while the options were outstanding. The obligation created by this bonus program is amortized to remuneration expense over the period the Trust Unit options become vested. The cash paid in respect of exercised Trust Unit options reduces the obligation in the year the Trust Units are exercised. During 2003, a total of \$130,000 (2002 - \$158,000) had been expensed and \$29,000 (2002 – \$24,000) was paid in respect of exercised options.

Trust Unit-based compensation expense

During the year, the Fund granted a total of 140,000 Trust Unit options at an exercise price of \$6.70 per Trust Unit to employees, officers, directors, and Trustees. These options vest over a five year period.

The fair value of the Trust Unit options granted was estimated to be \$264,000 of which \$50,000 was recorded as compensation expense during 2003, with an equal amount credited to contributed surplus. The weighted average fair value per Trust Unit option of \$1.89 was calculated using the Black-Scholes model with the assumptions being a risk free rate of 3.25 percent, an expected option life of five years, a volatility of 37.29 percent, and a quarterly dividend rate of 3.00 percent.

10. EARNINGS PER TRUST UNIT

Earnings per Trust Unit has been calculated based on the weighted average number of Trust Units outstanding of 5,593,198 during 2003 (2002 – 5,014,115). A reconciliation of the denominators for the per unit calculation is outlined below:

	2003	2002
Basic weighted average trust units	**5,593,198**	5,014,115
Effect of dilutive trust unit options	**112,482**	136,242
Diluted weighted average trust units	**5,705,680**	5,150,357

There is no change in the numerator in the calculation of diluted income per Trust Unit for either year.

11. INCOME TAXES

Under the terms of the Declaration of Trust, all Canadian taxable income will be allocated to Unitholders. No future Canadian taxes were recorded by the Fund in 2003, as there is no Canadian tax obligation.

At December 31, 2003, the Fund has tax values in excess of its net assets, and are comprised of the following:

Temporary differences related to warranty provision	$	1,328,000
Reorganization costs		280,000
Carrying values of property, plant and equipment in excess of tax values		(1,061,000)
Total tax values in excess of net assets	$	547,000

Foremost, through one of its U.S. subsidiaries has significant U.S. non-capital loss carryforwards. No tax benefits have been recorded for these losses, as their utilization is uncertain.

During 2002, the Canada Customs and Revenue Agency initiated a tax audit of the accounts of Foremost, and certain other related entities. The tax audit is not yet complete. It is management's belief that the ultimate resolution of this review will not materially affect the Fund's financial position.

12. CONTINGENT LIABILITIES

The Fund is involved in various legal claims arising in the ordinary course of business. It is management's opinion that these claims, once settled, are not expected to materially affect the Fund's financial position. Any costs to the Fund arising from these claims will be charged to earnings in the year in which they occur.

13. STATEMENTS OF CASH FLOW

The changes in non-cash working capital is comprised of:

		2003		2002
Increase in accounts receivable	**$**	**(2,533,000)**	$	(1,301,000)
Decrease in income taxes receivable		—		311,000
Decrease in inventories		**207,000**		3,172,000
Decrease in accounts payable and accrued liabilities		**(2,780,000)**		(229,000)
Increase (decrease) in customer contract deposits		**3,538,000**		(3,748,000)
Decrease in non-cash working capital	**$**	**(1,568,000)**	$	(1,795,000)

14. FINANCIAL INSTRUMENTS

a. **Fair values**

For accounts receivable, accounts payable and accrued liabilities, and customer contract deposits the carrying amounts approximate fair value due to the near term maturity of these financial instruments. Long-term debt and bank indebtedness approximate the carrying value as they bear interest at variable interest rates. Risks associated with foreign customers are mitigated by credit terms that require substantial amounts of cash deposits and/or letters of credit to guarantee payment of contract amounts. Additionally, where appropriate, the Fund uses the Export Development Company (EDC) to insure foreign contracts and receivables.

b. **Foreign currency risk**

A significant portion of the Fund's revenues, expenses, accounts receivable and accounts payable are denominated in U.S. dollars, and consequently, the Fund is subject to the risk of fluctuating exchange rates.

c. **Interest rate risk**

The Fund is exposed to interest rate risk to the extent that the carrying value of its long-term debt and bank indebtedness balances are at floating interest rates.

15. RELATED PARTY TRANSACTIONS

The Fund utilized the consulting and acquisition services of a company owned and managed by a Trustee of the Fund. The consideration for these services amounted to $481,000 for 2003 (2002 - $208,000) and was not more than could be expected from unrelated parties. Of this total amount, business acquisition costs were $212,000 for 2003 (2002 - $0). The balance owing as at December 31, 2003 was $38,000 (2002 - $205,000).

16. BUSINESS SEGMENTS

	Foremost		Universal	Total	
(000s)	**2003**	2002	**2003**	**2003**	2002
Revenue	**$ 41,457**	$ 46,690	**$ 29,222**	**$ 70,679**	$ 46,690
Interest expense (income)	**(121)**	(268)	**290**	**169**	(268)
Amortization	**757**	928	**558**	**1,315**	928
Segment income	**4,322**	5,868	**2,297**	**6,619**	5,868
Segment capital assets	**7,006**	7,175	**11,892**	**18,898**	7,175
Segment assets	**19,557**	32,848	**38,664**	**58,221**	32,848
Capital expenditures	**623**	832	**300**	**923**	832
Goodwill expenditures	**—**	—	**5,425**	**5,425**	—
Revenue by product:					
Oilfield equipment	**9,072**	9,948	**27,730**	**36,802**	9,948
Drills	**14,698**	17,380	**—**	**14,698**	17,380
Parts and services	**8,425**	8,674	**1,135**	**9,560**	8,674
Tooling and pipe	**7,486**	7,952	**—**	**7,486**	7,952
Rentals	**996**	794	**357**	**1,353**	794
Vehicles	**780**	1,942	**—**	**780**	1,942
Total	**$ 41,457**	$ 46,690	**$ 29,222**	**$ 70,679**	$ 46,690

These results are shown net of inter-company sales (2003 - $3.7 million, 2002 - $0.9 million).

In 2003, approximately $9.1 million in revenues to one customer has been included in the Calgary segment (compared to $5.7 million in 2002).

17. GEOGRAPHIC SEGMENTS

	Revenue		Property, plant and equipment	
(000s)	**2003**	2002	**2003**	2002
Canada	**$ 47,184**	$ 20,555	**$ 18,207**	$ 6,440
United States	**18,229**	23,526	**654**	689
International	**5,266**	2,609	**37**	46
Total	**$ 70,679**	$ 46,690	**$ 18,898**	$ 7,175

18. DISTRIBUTABLE CASH

Years ended December 31,	2003	2002
Net income	$ 6,619,000	$ 5,868,000
Amortization	1,315,000	928,000
	7,934,000	6,796,000
Less: sustaining capital expenditures	700,000	500,000
Distributable cash	$ 7,234,000	$ 6,296,000
Cash distributions paid	$ 4,533,000	$ 3,511,000
Distributable cash flow per trust unit	$ 1.29	$ 1.26
Actual cash distributions paid per trust unit	$ 0.80	$ 0.70

Distributable cash is not a defined term under Canadian generally accepted accounting principles. This amount is determined as net income for the period, with amortization, which is a non-cash expense added back. An estimate of normalized sustaining capital expenditures is then deducted.

Management believes that distributable cash is a useful supplemental measure of performance as it is used by other income funds. It provides investors with an indication of the amount of cash the business has generated during that period which could be available for distribution to Unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

In the case of the Fund, the level of distributions is set periodically with no direct relationship to the distributable cash during the period.

19. COMPARATIVE FIGURES

Certain of the previous year's figures have been reclassified to conform to the current year's format of presentation.

HISTORICAL REVIEW

($000s, except per trust unit/share amounts)

Operating Results	2003	2002	2001	2000	1999
Revenue	**70,679**	46,690	50,163	43,834	40,388
Income (loss) before income tax	**6,619**	5,868	8,631	3,385	(12,687)
Income taxes (recovery)	**—**	—	78	1,247	(1,480)
Net income (loss)	**6,619**	5,868	8,553	2,138	(11,207)
Per trust unit / share	**1.18**	1.17	1.58	0.39	(2.07)
Cash flow from operations	**7,933**	6,828	9,640	4,494	(6,840)

Financial Position					
Capital expenditures	**923**	832	449	1,816	1,641
Working capital	**14,270**	19,373	16,917	14,142	14,158
Total assets	**58,221**	32,848	36,519	33,424	38,528
Long-term debt	**3,098**	—	—	—	3,200
Unitholders' equity	**36,293**	26,548	24,309	22,948	20,810

CORPORATE INFORMATION

FOREMOST INDUSTRIES INCOME FUND

STOCK EXCHANGE LISTING

The Toronto Stock Exchange (TSX)
Symbol: FMO.UN

AUDITORS

Grant Thornton LLP

REGISTRAR & TRANSFER AGENT

Computershare Trust
Company of Canada
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones LLP

INVESTOR RELATIONS

Glen E. Swail, C.A.
Director, Foremost Industries Inc.
Vice President
TOM Capital Associates Inc.
Tel: (403) 571-4453
Fax: (403) 571-4444

ADMINISTRATIVE OFFICE

1225 64th Avenue NE
Calgary, Alberta T2E 8P9
Tel: (403) 295-5800
Fax: (403) 295-5810

WEBSITE

www.foremost.ca
email: investorrelations@foremost.ca

OPERATIONS

Foremost Industries
Limited Partnership

1225 64th Avenue NE
Calgary, Alberta T2E 8P9

OFFICERS

Pat W. Breen, P. Eng.
President

Richard D. Havinga
Vice President, Operations

Jim Chernyk, P. Eng.
Vice President, Sales

Foremost Universal
Limited Partnership

5014 65th Street
Lloydminster, Alberta T9V 2K2

OFFICERS

Pat W. Breen, P. Eng.
President

Bruce Binsfeld, CET
Vice President

WEBSITE

www.uic.ca

FOREMOST INDUSTRIES INCOME FUND

1225, 64th Avenue NE
Calgary, Alberta T2E 8P9
TEL: 403 295-5800
FAX: 403 295-5810
TOLL FREE: 1 800 661-9190 (Canada/US)
WEB: www.foremost.ca
E-MAIL: investorrelations@foremost.ca